Local Option Sales Tax Increment Financing

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When and Why was LOST-TIF Enacted?

- Local Option Sales Tax (LOST)-Tax Increment Financing (TIF) was enacted July 1, 2008.
  - Amended May 25, 2012

- Gave cities an additional means of financing development in an Urban Renewal Area.

What is a LOST-TIF?

- Additional LOST revenue that is collected above established base year LOST revenue is returned to the city for urban renewal.

- The base year is the fiscal year in which the LOST-TIF ordinance was adopted.

Who is Eligible for a LOST-TIF ?

- Incorporated city
  - Must have a LOST ordinance in effect
  - Established an Urban Renewal Area
- Urban Renewal Area
  - A slum area, blighted area, economic development area, or combination of the areas which the local governing body designated as appropriate for an Urban Renewal Project

How long can a city have a LOST-TIF ?

- The ordinance remains in effect until the area ceases to be an Urban Renewal Area, or twenty years after the base year, whichever is earlier.

How can the revenue be spent?

- The city council designates the amount of the additional revenue collected by the LOST-TIF to fund Urban Renewal Projects located in the Urban Renewal Area.
- The designated amount of revenue may be all or a portion of the additional revenue collected.
- Effective on or after May 25, 2012 the Board of Supervisors from the county from which LOST revenues will be diverted must first approve the city's plan for the collection and use of county LOST revenues.

Midwest States with TIF

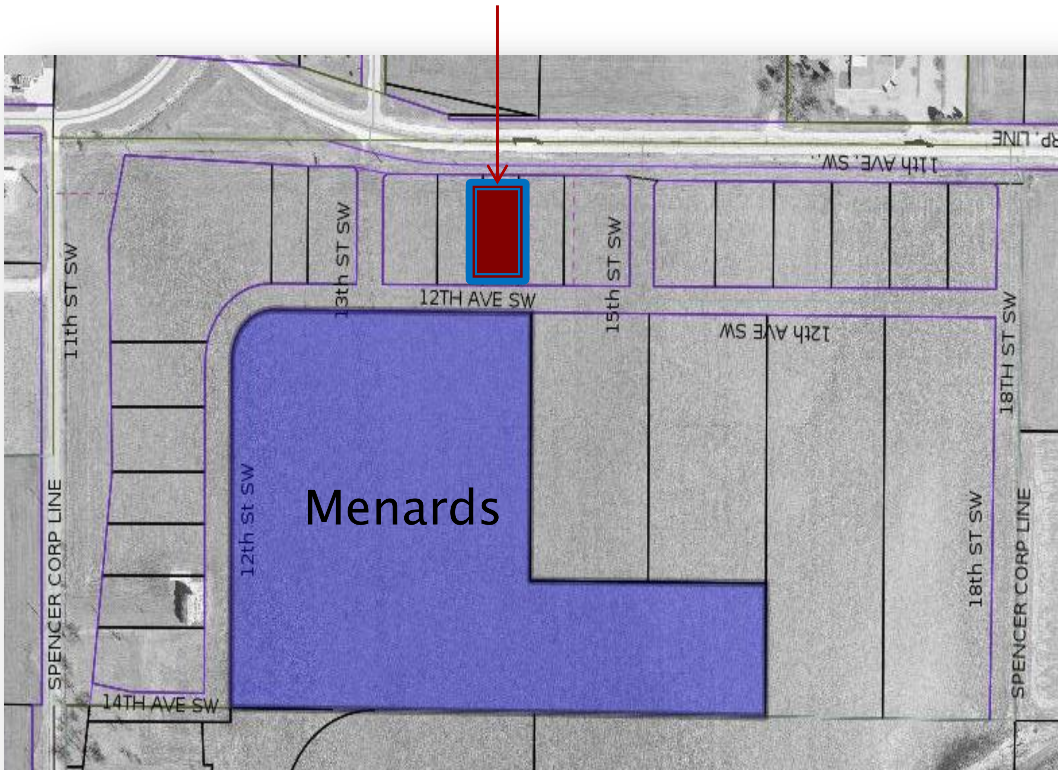
- The following Midwest states have some form of a sales tax TIF.
  - Illinois
  - Kansas
  - Minnesota
  - Missouri
  - South Dakota

Which Cities have a LOST-TIF ?

- The city of Spencer, Iowa, designated an Urban Renewal Area in 2011.
  - Only two businesses that pay retail sales tax are located in the LOST-TIF
  - Fiscal year 2012 is the base year
  - The base year LOST receipts: $405,276
- The city of Davenport, Iowa, designated a LOST-TIF in 2012.
  - There are no businesses in the LOST-TIF
  - Fiscal year 2012 is the base year

Urban Renewal Area District Number 4
Spencer, Iowa

Taco Johns



Administration of a LOST-TIF

- The city must send IDR a list of all retail businesses collecting sales tax located in the LOST-TIF in the base year.
- IDR establishes the base year LOST revenues and is responsible for calculating and distributing TIF funds in future years.
- The city will keep IDR apprised of any new retail businesses that are collecting sales tax in the LOST-TIF.

LOST Revenue Calculations

- Each quarter of the base year IDR determines the amount of LOST revenues generated by the retail businesses in the LOST-TIF.
- Because LOST is a destination-based tax, if sales made by a retail business in the LOST-TIF are delivered outside the county or to an area inside the county that does not have a LOST, these sales are not included in the base year or incremental revenue calculations for the funding of the Urban Renewal Area.

LOST Revenue Calculations Continued

- Each quarter after the base year IDR determines the additional LOST revenue generated by the businesses in the LOST-TIF.
- If a new business is established in the LOST-TIF after the base year, any sales from this business to any city or unincorporated area of the county that has a LOST are considered additional revenue.
- The TIF revenue above the base year amount will be deposited into a special fund to be used on the city's Urban Renewal Project.
- This deposit will occur each November after the fiscal year ends.

Impacts of the LOST-TIF

- An Urban Renewal Area will receive the benefit of sales growth regardless of whether the growth is a result of the Urban Renewal Project funded by the LOST-TIF.

- In the absence of the LOST-TIF, all LOST revenues are distributed among the participating areas in the county according to the existing population and tax levy-based formula.

Example LOST

- There are five cities in the county and the unincorporated area

- All cities and the unincorporated area have a LOST of 1%

- Under the existing population and tax-levying formula
  - Anytown receives 50% of every LOST dollar distributed to the county
  - Each of the other four cities and the unincorporated area of the county receive 10% of every LOST dollar

Example LOST–TIF

- Anytown enacts a LOST–TIF for a designated Urban Renewal Area that currently has one retail store.

- The base fiscal year:
  - LOST sales of store are $1,000,000

- The fiscal year following the base year:
  - The existing store has LOST sales of $1,200,000
  - A new store is built with LOST sales of $500,000

Base Year LOST Calculations

- The city of Anytown receives a total of $5,000 in the base year

  $1,000,000*(.01)*(.50)=$5,000

- Each of the other four cities in the county and the unincorporated area receive $1,000 in the base year

  $1,000,000*(.01)*(.10)=$1,000

LOST for Anytown =$5,000

Total LOST for other cities and unincorporated area=$5,000

Next Year: With LOST–TIF

- By implementing the LOST–TIF, Anytown will receive $12,000

  $1,000,000*(.01)*(.50)=$5,000 (Base Amount)

  $200,000*(.01)*(1.0)=$2,000 (Incremental Sales)

  $500,000*(.01)*(1.0)=$5,000 (New Sales)

- Each of the other cities in the county and the unincorporated area will receive $1,000

  $ 1,000,000*(.01)*(.10)=$1,000 (Base Amount)

LOST for Anytown =$12,000 ($7,000 in TIF Receipts)

Total LOST for other cities and unincorporated area =$5,000

Next Year: Without LOST-TIF

- Calculations assume the same growth in economic activity, i.e. the LOST-TIF did not contribute to additional economic activity.

- Anytown will receive $8,500

  $1,200,000*(.01)*(.50)=$6,000 (Original Store)

  $500,000*(.01)*(.50)=$2,500 (New Sales)
- Each of the other four cities in the county and the unincorporated area will receive $1,700

  $1,200,000*(.01)*(.10)=$1,200 (Original Store)

  $500,000*(.01)*(.10)=$500 (New Sales)

LOST for Anytown =$8,500

Total LOST for other cities and unincorporated area =$8,500

Conclusion

- The example demonstrates that a LOST-TIF can have a fiscal impact on the other areas in the county that have a LOST.

- The other cities and unincorporated area of the county will continue to receive only the base year amount from sales in the LOST-TIF area as long as the LOST-TIF is in effect.

Questions?